

**California Actuarial Advisory Panel**  
**Defining the Range of Actuarial Model Policies and Best Practices for**  
**Public Retirement Plan Benefits**

**Objectives:**

- Define “Best Practice” actuarial methods
  - Should minimize volatility without losing sight of underlying cost
  - Pay-related benefit costs should reflect anticipated pay at determination
  - The following would, generally, be considered unreasonable:
    - ☐ produces gains or losses even if all assumptions are met
    - ☐ results in contribution increases (as a percent of anticipated payroll) over an extended time
    - ☐ expected to not reduce (eliminate?) the unfunded liability over time
  - Consistent with GASB?
- Define “Best Practice” for Retirement Boards/Systems (see attached 2007 draft article)
- Determine “Range” by survey or other method

**Best Practice – Actuarial Methods**

- Actuarial Funding Methods
  - Entry Age
    - ☐ Level % of Pay
  - Other?
    - ☐ Aggregate
    - ☐ Projected Unit Credit
    - ☐ FIL
    - ☐ Unit Credit, if benefits are not pay related
- Amortization Methods
  - Type:
    - ☐ level % of pay for shorter (20 years or less) amortization periods
    - ☐ Level \$ for longer amortization periods (greater than 20 years)
  - Period
    - ☐ Not greater than 30 years
    - ☐ Negative amortization limited to shorter (20 years or less) amortization periods
    - ☐ No negative amortization if rolling rather than fixed period
    - ☐ Gains/Losses
      - Shorter periods, e.g. not longer than 15 years
    - ☐ Plan Changes
      - 20 years or shorter
      - Longer for actives & shorter for retirees?
    - ☐ Method & Assumption Changes
      - 20 years or shorter
      - Longer for actives & shorter for retirees

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- Asset Valuation Methods
  - Must be market related
  - Three considerations
    - ☐ Period to spread
    - ☐ Corridor
    - ☐ Spread period rolling vs. fixed
  - Shorter periods, wider corridor
    - ☐ 5 year spread, no corridor required
  - Longer periods, narrower corridor
    - ☐ 15 year spread, 20% corridor
  - Rolling:
    - ☐ Shorter amortization periods than fixed
    - ☐ Narrower corridors than fixed
- Assumptions?